

Audit Report



CHECKS ISSUED DIFFERENCES FOR DEACTIVATED DISBURSING STATIONS

Report No. D-2002-019

November 28, 2001

Office of the Inspector General
Department of Defense

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Acronyms

DCRM	Defense Check Reconciliation Module
DFAS	Defense Finance and Accounting Service
FBWT	Fund Balance With Treasury



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 28, 2001

**MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE**

**SUBJECT: Audit Report on Checks Issued Differences for Deactivated Disbursing
Stations (Report No. D-2002-019)**

We are providing this report for your information and use. This is the sixth in a series of reports on the Fund Balance With Treasury account. We conducted the audit in support of our annual audits of the Fund Balance With Treasury account and the DoD Agency-Wide financial statements, as required by the Chief Financial Officers Act of 1990, the Federal Financial Management Act of 1994, and the Federal Financial Management Improvement Act of 1996. We considered management comments on a draft of this report when preparing the final report.

The Defense Finance and Accounting Service comments conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Brian M. Flynn at (703) 604-9489 (DSN 664-9489) (bflynn@dodig.osd.mil) or Mr. Robert E. Benefiel, Jr., at (703) 604-9211 (DSN 664-9211) (rbenefiel@dodig.osd.mil). See Appendix G for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, appearing to read "Thomas F. Gimble", is positioned above the printed name.

Thomas F. Gimble
Acting
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2002-019

(Project No. D2001FD-0048)

November 28, 2001

Checks Issued Differences for Deactivated Disbursing Stations

Executive Summary

Introduction. This is the sixth in a series of audits on the Fund Balance With Treasury account (an asset account) performed in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, and the Federal Financial Management Improvement Act of 1996. This report discusses the reconciliation of differences reported by the Department of the Treasury for checks issued by deactivated disbursing stations. The FY 2000 DoD Agency-Wide Financial Statements reported total assets of \$616.7 billion, including \$177.5 billion in the Fund Balance With Treasury account.

The Department of the Treasury provides agencies with reports on differences, because differences compromise the reliability of Fund Balance With Treasury account balances and the Department of the Treasury's published financial reports. As of September 30, 2000, U.S. Treasury reports identified \$3.5 billion (absolute value) of differences for DoD, including differences for interagency transfers (\$0.3 billion), deposits (\$1.3 billion), and checks issued (\$1.9 billion).

Objectives. The overall audit objective was to assess controls over the collections and disbursements reported to the Defense Finance and Accounting Service centers and the Department of the Treasury. This report focuses on the objective as it applies to the reconciliation of checks issued differences by DoD settlement offices after disbursing station deactivation. We also reviewed the adequacy of the management control program as it applied to the audit objective.

Results. DoD settlement offices did not reconcile checks issued differences after disbursing station deactivation. As of February 28, 2001, DoD settlement offices had not reconciled \$408.4 million in checks issued differences assumed from 66 deactivated disbursing stations. By FY 2005, the Defense Finance and Accounting Service and the Services plan to deactivate an additional 14 disbursing stations with \$73.0 million in unreconciled checks issued differences. Until the differences are reconciled, the Department of the Treasury will continue to report differences for checks issued every month and will be unable to officially close DoD deactivated disbursing stations. Further, unreconciled checks issued differences can impact the amount of funds available for expenditure in the accounts. For details on the audit results, see the Finding section. See Appendix A for details on our review of the management control program.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service, issue guidance to require disbursing stations and settlement offices to retain records on checks issued until checks issued differences shown on the Comparison Report are reconciled. We also recommend guidance to establish a standard method for disbursing stations and settlement offices to clear checks issued differences from the Comparison Report when data needed to complete the reconciliation are not available. Further, we recommend that the guidance require disbursing stations and settlement offices to clear checks issued differences from the Comparison Report at locations where the data needed to complete the check issued reconciliation are not available. In addition, we recommend that the Defense Finance and Accounting Service review settlement office reconciliation of deactivated disbursing stations' checks issued differences as part of its self-evaluations.

Management Comments. The Defense Finance and Accounting Service concurred, stating that the Office of the Under Secretary of Defense (Comptroller) is revising the DoD Financial Management Regulation to permit the retention period for checks issued records to be extended for the reconciliation of discrepancies. The Defense Finance and Accounting Service also agreed to establish a standard method to clear checks issued differences from the Comparison Report when data needed to complete the reconciliation are not available, and stated that the Comptroller will submit a legislative proposal for one-time write-off authority. The Defense Finance and Accounting Service agreed to require disbursing stations and settlement offices to clear the checks issued differences when the legislation is enacted. In addition, the Defense Finance and Accounting Service agreed to review settlement office reconciliation of checks issued differences as part of its self-evaluations. A complete discussion of management comments is in the Finding section of the report, and the complete text of management comments is in the Management Comments section of the report.

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This is the sixth in a series of audits on the Fund Balance With Treasury (FBWT) account (an asset account)¹ performed in response to Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994, and Public Law 104-208, the "Federal Financial Management Improvement Act of 1996," September 30, 1996. This report focuses on the objective as it applies to the reconciliation of differences reported by the Department of the Treasury for checks issued by disbursing stations before deactivation (deactivated disbursing stations).

The first three reports assessed the reconciliation of differences in deposits, interagency transfers, and checks issued against the FBWT account. The fourth report discussed the disclosure of differences in deposits, interagency transfers, and checks issued in the FY 1999 DoD Agency-Wide Financial Statements. The fifth report discussed the development and use of performance measures to assess how effectively disbursing stations managed the reconciliation of differences in deposits, interagency transfers, and checks issued. The FY 2000 DoD Agency-Wide Financial Statements reported total assets of \$616.7 billion, including \$177.5 billion in the FBWT account.

Background

The Department of the Treasury makes disbursements and collections for all Federal agencies except for those agencies authorized to make disbursements independently. Congress provided disbursement authority to DoD under section 3321, title 31, United States Code. Each of the agencies, including DoD, established disbursing stations to handle money from the Department of the Treasury. The disbursing stations are authorized to make deposits, initiate interagency transfers, and issue U.S. Treasury checks.

The Department of the Treasury provides agencies with reports on differences, because differences compromise the reliability of Fund Balance With Treasury account balances and the Department of the Treasury's published financial reports. As of September 30, 2000, U.S. Treasury reports identified \$3.5 billion (absolute value) of differences for DoD, including differences for interagency transfers (\$0.3 billion), deposits (\$1.3 billion), and checks issued (\$1.9 billion).

Statement of Accountability. Disbursing stations are accountable to the Department of the Treasury for their disbursements and collections. Each disbursing station is required to prepare a monthly SF 1219, "Statement of Accountability," which reports information to the Department of the Treasury on deposits, interagency transfers, and checks issued. The Statement of Accountability also reports net disbursements—the sum of the deposits, interagency transfers, and checks issued that month.

¹A Federal entity's Fund Balance With Treasury account is the aggregate amount of funds in the entity's accounts with the Department of the Treasury for which the entity is authorized to make expenditures and pay liabilities.

Each DoD disbursing station submits its Statement of Accountability to a finance center. Army disbursing stations report to Defense Finance and Accounting Service (DFAS) Indianapolis, Indianapolis, Indiana; Navy disbursing stations report to DFAS Cleveland, Cleveland, Ohio; and Air Force disbursing stations report to DFAS Denver, Denver, Colorado. The U.S. Army Corps of Engineers (Corps) disbursing stations report to the Corps Finance Center, Millington, Tennessee.

Each finance center combines the Statements of Accountability received from its disbursing stations and electronically submits a combined Statement of Accountability to the Department of the Treasury using the Government On-line Accounting Link System, a Federal financial telecommunications network.

Disbursing Station Reports on Checks Issued. The "Treasury Financial Manual," volume I, part 4, chapter 6000, "Checking Accounts With the United States Treasury," March 4, 1991, requires disbursing stations to report information to the Department of the Treasury on checks issued. DoD disbursing stations must report their checks issued weekly to the DoD check reporting system, the Defense Check Reconciliation Module (DCRM), at DFAS Denver. Disbursing stations electronically transmit the data on checks issued (the Weekly Transmission Reports) to the DCRM. DFAS Denver, using the DCRM, sends all Weekly Transmission Reports from DoD disbursing stations to the Department of the Treasury. In addition, DoD disbursing stations report their monthly totals of checks issued to their finance centers on line 2.1, "Checks Issued on U.S. Treasury," of the Statement of Accountability. The monthly total of checks issued, as reported on the Statement of Accountability, should agree with the monthly total of checks issued as shown on the Weekly Transmission Reports.

Department of the Treasury Checks Issued Reconciliation. The Department of the Treasury reconciles the checks issued shown on the Weekly Transmission Reports with the checks issued that are reported on the Statement of Accountability. The Department of the Treasury also compares the amounts for checks issued on the Weekly Transmission Reports with the amounts for checks paid through the banking system. When a checks issued amount on the Weekly Transmission Report differs from the amount printed on the check presented to a Federal Reserve Bank for payment, the Department of the Treasury adjusts the checks issued amount reported on the Weekly Transmission Report to agree with the amount printed on the check.

The Department of the Treasury reports the reconciliation to DoD on the "Comparison of Checks Issued -- Detail Reported on Statements of Accountability and Block Control Level Totals" report (the Comparison Report). The Comparison Report shows the difference between the amount of checks issued and reported on the Statement of Accountability and the amount of checks issued and reported on the Weekly Transmission Reports, as adjusted for discrepancies in amounts paid.

The Department of the Treasury also provides DoD with the Check Payment and Reconciliation 72 Report (the 72 Report). The 72 Report is a monthly listing of checks issued obtained from the Department of the Treasury's database of Weekly Transmission Reports. The 72 Report identifies block numbers for checks processed, adjustments initiated by the Department of the Treasury, and adjustments requested by the disbursing officer. The report assists agencies in the reconciliation of the Comparison Report.

Statement of Transactions. Each DoD disbursing station is also required to prepare a monthly SF 1220, "Statement of Transactions," which reports the disbursements shown on the Statement of Accountability by appropriation. The Department of the Treasury requires that the net disbursements reported on the Statement of Transactions agree with the net disbursements reported on the Statement of Accountability. See Appendix C for a discussion of the Statement of Transactions and the FBWT account.

Objectives

The overall audit objective was to assess controls over the collections and disbursements reported to the DFAS centers and the Department of the Treasury. This report focuses on the objective as it applies to the reconciliation of checks issued differences by DoD settlement offices after disbursing station deactivation. We also reviewed the adequacy of the management control program as it applied to the audit objective. Appendix A discusses the audit scope and methodology and the review of the management control program, and Appendix B lists prior audits related to the objectives.

Checks Issued Differences for Deactivated Disbursing Stations

DoD settlement offices did not reconcile checks issued differences after disbursing station deactivation. As of February 28, 2001, DoD settlement offices had not reconciled \$408.4 million in checks issued differences assumed from 66 deactivated disbursing stations. This would not have occurred if DFAS had issued specific guidance. Specifically, DFAS guidance did not:

- require disbursing stations and settlement offices to retain records on checks issued until checks issued differences shown on the Comparison Report are reconciled, and
- establish a standard method for disbursing stations and settlement offices to clear checks issued differences from the Comparison Report when data needed to complete the checks issued reconciliation are not available.

Also, DFAS did not review the reconciliation of checks issued differences by DoD settlement offices as part of its self-evaluation. By FY 2005, DFAS and the Services plan to deactivate an additional 14 disbursing stations with \$73.0 million in unreconciled checks issued differences. Until reconciliation procedures are developed and the differences are reconciled, the Department of the Treasury will continue to report differences for checks issued every month and will be unable to officially close DoD deactivated disbursing stations. Further, unreconciled checks issued differences can impact the amount of funds available for expenditure in the accounts.

Guidance for Reconciling the Fund Balance With Treasury Account

Reconciling FBWT accounts is a key internal control process. Reconciliation ensures the reliability of the Government's receipt and disbursement data reported by agencies. Therefore, all Government agencies must perform timely reconciliations and implement effective and efficient reconciliation processes. To assist DoD and other Government agencies in their reconciliation efforts, the Department of the Treasury has updated the FBWT guidance in the Treasury Financial Manual and established a FBWT home page at www.treas.gov/fundbalance/index. DoD has also updated the FBWT guidance in DoD Regulation 7000.14-R, "DoD Financial Management Regulation." See Appendix D for a discussion of U.S. Treasury and DoD guidance on the FBWT account.

Checks Issued Differences Relating to Deactivated Disbursing Stations

As of February 28, 2001, the Department of the Treasury reported 342 disbursing stations with \$1,276.4 million in unreconciled checks issued differences on Comparison Reports for DoD. However, DFAS records showed that 66 disbursing stations (19.3 percent) of the 342 disbursing stations had been deactivated by DoD.² The 66 deactivated disbursing stations accounted for \$408.4 million (32.0 percent) of the \$1,276.4 million in unreconciled checks issued differences. U.S. Treasury records showed 63 of the 66 deactivated disbursing stations as open and the remaining 3 of the 66 disbursing stations as closed.³

Settlement Offices Responsible for Deactivated Disbursing Stations

DFAS records showed that settlement offices at 24 disbursing stations were responsible for reconciling the 66 deactivated disbursing stations' differences. The Navy (1 settlement office) and DFAS (23 settlement offices) operated the 24 disbursing stations' settlement offices (settlement offices). The 23 DFAS settlement offices were responsible for 65 of the 66 deactivated disbursing stations and all \$408.4 million in unreconciled checks issued differences (except \$1,392 assigned to the Navy settlement office). DFAS operates settlement offices for deactivated Army, Navy, and Air Force disbursing stations.

Fourteen of the 24 settlement offices were responsible for reconciling checks issued differences for more than one deactivated disbursing station. Four settlement offices were responsible for five or more deactivated disbursing stations. The settlement offices at:

- disbursing station 6789, DFAS Europe, Ramstein Air Force Base, Germany, were responsible for reconciling \$221.4 million in checks issued differences applicable to 12 deactivated disbursing stations; and
- disbursing station 5242, DFAS San Diego, San Diego, California; disbursing station 5257, DFAS Omaha, Omaha, Nebraska; and

²DoD deactivated the disbursing stations in 1989 (1 station), 1991 (4 stations), 1992 (8 stations), 1993 (2 stations), 1994 (8 stations), 1995 (9 stations), 1996 (14 stations), 1997 (8 stations), 1998 (4 stations), 1999 (2 stations), 2000 (3 stations), 2001 (2 stations), and on an unknown date (1 station).

³We advised the Department of the Treasury that its records showed three deactivated disbursing stations (disbursing stations 5725, 5909, and 8469) as closed but the disbursing stations have differences reported on the February 28, 2001, Comparison Report. The Department of the Treasury is reviewing the closed classification for the three disbursing stations.

disbursing station 6102, DFAS Kansas City, Kansas City, Missouri; were each responsible for five deactivated disbursing stations with checks issued differences, respectively, of \$11,099, \$13,793, and \$16,271.

Settlement Office Reconciliation of Checks Issued Differences Relating to Deactivated Disbursing Stations

DoD settlement offices did not reconcile checks issued differences after disbursing station deactivation. As of February 28, 2001, the 24 settlement offices had not reconciled \$408.4 million in differences for checks issued by 66 deactivated disbursing stations. Of the \$408.4 million in checks issued differences, \$89.6 million (22.0 percent) were aged 6 years, 3 months, or less; and \$318.8 million (78.0 percent) were aged more than 6 years, 3 months.⁴

Differences Aged 6 Years, 3 Months, or Less. The settlement office at disbursing station 3801, DFAS Denver, Denver, Colorado, accounted for \$89.5 million (99.9 percent) of the \$89.6 million in differences aged 6 years, 3 months, or less. Disbursing station 3801 subsequently submitted reports through the DCRM to the Department of the Treasury that eliminated all \$89.5 million of the differences aged 6 years, 3 months, or less (except for \$77,626).

Differences Aged More Than 6 Years, 3 Months. The National Archives and Records Administration and DoD require financial records to be available for a period of 6 years, 3 months. DoD must maintain the records for a longer period when there are compelling reasons to do so. Therefore, disbursing stations and settlement offices should retain aged checks issued records that are needed to complete the checks issued reconciliation. See Appendix E for a discussion of National Archives and Records Administration and DoD guidance on record retention. See Appendix F for a discussion of the records needed to reconcile checks issued differences.

Retention Procedures. To determine the availability of aged checks issued records, we contacted the disbursing officer at the five settlement offices responsible for the largest amounts of aged differences in checks issued by deactivated disbursing stations. The five settlement offices were located at disbursing station 6789, Ramstein Air Force Base, Germany (\$221.4 million); disbursing station 8541, Columbus, Ohio (\$46.4 million); disbursing station 6469, Columbus, Ohio (\$18.5 million); disbursing station 6683,

⁴As of February 28, 2001, deactivated DoD disbursing stations accounted for \$318.8 million (96.0 percent) of \$332.2 million in aged checks issued differences. Of the \$318.8 million in checks issued differences aged more than 6 years, 3 months, \$95.8 million related to the 20 disbursing stations deactivated more than 6 years, 3 months, prior to February 28, 2001. The remaining \$223.0 million of the \$318.8 million related to the 46 disbursing stations deactivated within 6 years, 3 months, of February 28, 2001.

Honolulu, Hawaii (\$16.3 million); and disbursing station 6355, Columbus, Ohio (\$12.6 million). Collectively, the five disbursing stations accounted for \$315.2 million (98.9 percent) of the \$318.8 million in aged checks issued differences applicable to deactivated disbursing stations.

The settlement offices at disbursing stations 6789, 8541, 6469, and 6355 told us that the aged checks issued records were destroyed based on their interpretation of the DoD record retention policy. The settlement office at disbursing station 6683 told us that the office did not receive records applicable to the aged checks issued differences from the deactivated disbursing station assigned to its office.

This would not have occurred if DFAS had issued specific guidance on the retention of records needed to reconcile checks issued differences. Specifically, DFAS did not require disbursing stations and settlement offices to retain records on checks issued until the differences shown on the Comparison Report are reconciled.

Corrective Actions. The three settlement offices at DFAS Columbus (disbursing stations 8541, 6469 and 6355) sent letters requesting that the Department of the Treasury clear the aged checks issued differences from the Comparison Report for the six deactivated disbursing stations assigned to their offices for settlement. As of May 31, 2001, the Department of the Treasury had cleared \$20.7 million (26.7 percent) of the \$77.5 million in aged checks issued differences shown on the Comparison Report.

The three settlement offices assigned staff and made special requests for financial data to reconcile the aged checks issued differences because checks issued records were not available to support the amounts for checks issued that were shown on the Comparison Report. The settlement offices obtained Comparison Reports from the Department of the Treasury and vouchers with a listing of limited payability canceled checks⁵ from DFAS Denver and DFAS Indianapolis. The settlement offices identified canceled checks that were not in the appropriate month and canceled checks applicable to months with aged checks issued differences. The settlement offices then prepared letters requesting that the Department of the Treasury adjust the checks issued amounts for those months on the Comparison Report. Based on the letters, vouchers,⁶

⁵A limited payability canceled check is a U.S. Treasury check issued on or after October 1, 1989, which is automatically canceled by the Department of the Treasury if not cashed within 12 months from the date of issue. The Department of the Treasury identifies checks issued that were not cashed by comparing checks issued that DoD reported to the Department of the Treasury with checks that were cashed and reported through the banking system to the Department of the Treasury. The Department of the Treasury reports the canceled checks to DoD and credits the funds derived from the cancellation to a budget clearing account. DoD should transfer the funds in the clearing account to the proper appropriation and request that the Department of the Treasury adjust the checks issued amount reported through the DCRM.

⁶The vouchers supported transfers from a DoD suspense account to a U.S. Treasury receipt account for funds that could not be reconciled to the appropriation charged when the check was issued.

canceled check listings, and other supporting documentation provided, the Department of the Treasury made adjustments to clear the aged checks issued differences.

However, DoD settlement offices were not able to reconcile all aged checks issued differences because all checks issued records are not available and all aged checks issued differences are not caused by canceled checks. DFAS should issue guidance to establish a standard method for clearing checks issued differences from the Comparison Report when data needed to complete the checks issued reconciliation are not available.

Also, as part of DFAS self-evaluation, checks issued differences should be reviewed after deactivation of a disbursing station. Without this review and reconciliation, the Department of the Treasury cannot officially close deactivated disbursing stations. See Appendix A for a discussion of the management control program review, including the adequacy of management controls and the adequacy of management self-evaluation.

DoD Plans for Additional Disbursing Station Deactivations

By FY 2005, DFAS and the Services plan to deactivate an additional 14 disbursing stations with \$73.0 million in unreconciled checks issued differences. Of the \$73.0 million in checks issued differences, \$71.6 million (98.0 percent) were aged 6 years, 3 months, or less, and \$1.4 million (2.0 percent) were aged more than 6 years, 3 months.

Of the 14 disbursing stations, 9 disbursing stations include settlement offices. The 9 settlement offices are responsible for 39 of the 66 deactivated disbursing stations and \$221.7 million of the \$408.4 million in unreconciled checks issued differences.

DoD Progress in Reconciling Checks Issued Differences

DoD has made substantial progress in reconciling checks issued differences. DoD reduced checks issued differences by \$5.3 billion (73.6 percent) from \$7.2 billion on September 30, 1998, to \$1.9 billion on September 30, 2000. The 73.6 percent reduction in checks issued differences was greater than the

- 56.9 percent reduction (\$50.0 billion) in the amount of checks issued from FY 1998 (\$87.8 billion) to FY 2000 (\$37.8 billion), and the
- 64.2 percent reduction (12.2 million) in the number of checks issued from FY 1998 (19.0 million) to FY 2000 (6.8 million).

The reduction in checks issued differences resulted from the combined efforts of the financial accounting and audit communities, and the increased use of electronic collections and disbursements.⁷

Conclusion

Until reconciliation procedures are developed and the differences are reconciled, the Department of the Treasury will continue to report differences for checks issued every month on the Comparison Report. In addition, the Department of the Treasury will be unable to officially close DoD deactivated disbursing stations. The unreconciled checks issued differences can impact the amount of funds available for expenditure in the accounts.

The Director, DFAS, should issue specific guidance to reconcile checks issued differences shown on the Comparison Report. The guidance should require disbursing stations and settlement offices to retain records on checks issued until checks issued differences shown on the Comparison Report are reconciled. The guidance should also establish a standard method for clearing checks issued differences from the Comparison Report when data needed to complete the checks issued reconciliation are not available. Further, the guidance should require disbursing stations and settlement offices to clear check issued differences from the Comparison Report at locations where the data needed to complete the check issued reconciliation are not available.

⁷From FY 1998 to FY 2000, DoD increased electronic collections disbursements made through the CASHLINK system by a net \$76.1 billion (46.1 percent) from \$164.9 billion to \$241.0 billion and reduced related differences by \$0.3 billion (18.8 percent) from \$1.6 billion to \$1.3 billion.

Recommendations and Management Comments

We recommend that the Director, Defense Finance and Accounting Service:

1. Issue guidance to:

a. Require disbursing stations and settlement offices to retain records on checks issued until checks issued differences shown on the Comparison Report are reconciled.

b. Establish a standard method for disbursing stations and settlement offices to clear checks issued differences from the Comparison Report when data needed to complete the checks issued reconciliation are not available.

c. Require disbursing stations and settlement offices to clear checks issued differences from the Comparison Report at locations where the data needed to complete the checks issued reconciliation are not available.

2. Review the reconciliation of checks issued differences by DoD settlement offices after disbursing station deactivation as part of its self-evaluations.

Management Comments. The Defense Finance and Accounting Service concurred, stating that the Office of the Under Secretary of Defense (Comptroller) is revising the DoD Financial Management Regulation to permit the retention period for checks issued records to be extended for the reconciliation of discrepancies. The Defense Finance and Accounting Service also agreed to establish a standard method to clear checks issued differences from the Comparison Report when data needed to complete the reconciliation are not available, and stated that the Comptroller will submit a legislative proposal for one-time write-off authority. The Defense Finance and Accounting Service agreed to require disbursing stations and settlement offices to clear the checks issued differences when the legislation is enacted. In addition, the Defense Finance and Accounting Service agreed to review settlement office reconciliation of checks issued differences as part of its self-evaluations.

Appendix A. Audit Process

Scope and Methodology

We obtained U.S. Treasury Comparison Report data for DoD for September 30, 1998, September 30, 2000, and February 28, 2001. The Comparison Reports reflect amounts shown on the Statements of Accountability and in U.S. Treasury control totals for all DoD disbursing stations with differences, including disbursing stations with zero dollar differences. We manually converted the Comparison Reports to an electronic spreadsheet. To ensure the integrity of the data, we compared control totals from the spreadsheet with control totals from the U.S. Treasury's Comparison Reports.

Using a spreadsheet application on the February 28, 2001, Comparison Report data, we determined the number of disbursing stations with checks issued differences and the total amount of checks issued differences (absolute value). In addition, we determined the amount of differences for each individual disbursing station. The absolute value for each disbursing station represents the sum of the absolute values for each month with an outstanding difference.¹

We identified deactivated disbursing stations with checks issued differences by comparing disbursing stations on the February 28, 2001, Comparison Report with DFAS records on deactivated disbursing stations. Using a spreadsheet application, we determined the number of deactivated disbursing stations with checks issued differences and the total amount of the deactivated disbursing stations' checks issued differences. We also used a spreadsheet application to determine the deactivated disbursing stations' checks issued differences aged 6 years, 3 months, or less, and aged more than 6 years, 3 months. We conducted the same analysis on disbursing stations planned for deactivation by DFAS and the Services by FY 2005.

The settlement office for each deactivated disbursing station was also identified based on DFAS records. Using a spreadsheet application, we determined the number of settlement offices responsible for reconciling the deactivated disbursing stations' checks issued differences. We also determined the number of settlement offices responsible for reconciling the differences for more than one deactivated disbursing station and the number of settlement offices responsible for reconciling the differences of five or more deactivated disbursing

¹ The Department of the Treasury computes differences for each DoD disbursing station monthly. For example, if a disbursing station had 15 previous months with uncorrected differences, the disbursing station would have 15 separate differences at month-end. The differences represent Statements of Accountability that either overstate or understate amounts shown in U.S. Treasury control totals. If the disbursing station in the above example had 7 months with overstatements and 8 months with understatements, the absolute value of the overstatements and understatements would be computed by considering the differences for all 15 months as positive. In computing the absolute value of the differences, overstatements would not offset understatements.

stations. We aged the differences by settlement office and determined the settlement offices responsible for the largest amount of differences aged 6 years, 3 months, or less, and aged more than 6 years, 3 months. We contacted the disbursing officer at these settlement offices to determine the availability of the records needed to complete the checks issued reconciliation.

We interviewed operating personnel from the Department of the Treasury Financial Management Service and DFAS, and reviewed the Treasury Financial Manual and DoD Regulation 7000.14-R. We also coordinated our audit efforts with personnel from the Department of the Treasury Financial Management Service, DFAS Arlington, and the DoD disbursing stations.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the Department of Defense. This report provides coverage of the Defense Financial Management high-risk area.

Use of Computer-Processed Data. We relied on computer-processed data from the U.S. Treasury's accounting and reporting system to determine the September 30, 1998, September 30, 2000, and February 28, 2001, differences for checks issued. Specifically, we relied on computer-processed difference data shown on the U.S. Treasury's Comparison Reports. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that data on checks issued that DoD reported to the Department of the Treasury on Statements of Accountability agreed with corresponding computer-processed data. We did not find errors that would preclude the use of computer-processed data to meet the audit objectives or that would change the conclusions in the report.

Audit Type, Dates, and Standards. We performed this financial-related audit from November 2000 through August 2001 in accordance with generally accepted Government auditing standards.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and at the Department of the Treasury, Hyattsville, Maryland. Further details are available on request.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the Office of the Under Secretary of Defense (Comptroller) and the DFAS controls over differences in checks issued that are reported on Comparison Reports. Specifically, we reviewed controls over the reconciliation of checks issued differences by DoD settlement offices after disbursing station deactivation. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses for DFAS as defined by DoD Instruction 5010.40. DFAS management controls were not adequate for the reconciliation of checks issued differences by DoD settlement offices after disbursing station deactivation. Specifically, controls were not adequate to ensure that records needed to reconcile checks issued differences shown on the Comparison Report were retained and checks issued differences were cleared from the Comparison Report. Data needed to complete the checks issued reconciliation were not available. Recommendations 1. and 2., if implemented, will improve DFAS management controls over the reconciliation of checks issued differences applicable to deactivated disbursing stations. A copy of the report will be provided to the senior official responsible for management controls in the Defense Finance and Accounting Service.

Adequacy of Management Self-Evaluation. DFAS officials identified the reconciliation of checks issued differences as part of an assessable unit. However, in its evaluation, DFAS officials did not identify the specific material management control weaknesses identified by the audit because the DFAS evaluation covered a much broader area. Specifically, DFAS did not identify the need for DFAS guidance requiring the retention of records for reconciling checks issued differences. Also, DFAS did not establish a standard method for clearing checks issued differences when data needed to complete the reconciliation are not available. During the audit we noted that DFAS was seeking approval from the Office of the Under Secretary of Defense (Comptroller) to clear aged checks issued differences from the Comparison Report using expired or unexpired funds.

Appendix B. Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to financial statement issues. General Accounting Office reports can be accessed on the Internet at <http://www.gao.gov>. Inspector General, DoD, reports can be accessed on the Internet at <http://www.dodig.osd.mil/audit/reports>. The audit organizations have issued the following reports related to financial statement issues involving the FBWT account.

General Accounting Office

Report No. GAO-01-847 (OSD Case No. 4015), "Financial Management: Improvements in Air Force Fund Balance With Treasury Reconciliation Process," July 18, 2001

Report No. GAO/AIMD-99-271, "Financial Audit: Issues Regarding Reconciliations of Fund Balances With Treasury Accounts," September 17, 1999

Report No. GAO/AIMD-99-3, "Financial Audit: Issues Regarding Reconciliations of Fund Balances With Treasury Accounts," October 14, 1998

Report No. GAO/AIMD-97-104R, "Financial Audit: Reconciliation of Fund Balances With Treasury," June 24, 1997

Inspector General, DoD

Report No. D-2001-024, "Performance Measures for Disbursing Stations," December 22, 2000

Report No. D-2000-123, "Disclosure of Differences in Deposits, Interagency Transfers, and Checks Issued in the FY 1999 DoD Agency-Wide Financial Statements," May 18, 2000

Report No. D-2000-044, "Reconciliation of Differences Reported for Checks Issued by the Defense Finance and Accounting Service Columbus Center Disbursing Stations," November 30, 1999

Report No. 99-226, "Interagency Transfer Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations," July 28, 1999

Report No. 99-211, "Deposit Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations," July 9, 1999

Army Audit Agency

Report No. AA 01-170, "Army's General Fund Principal Financial Statements for Fiscal Year 2000," February 7, 2001

Report No. AA 00-168, "Army's General Fund Principal Financial Statements for Fiscal Year 1999: Summary Audit Report," February 9, 2000

Report No. AA 99-115, "Army's Principal Financial Statements for Fiscal Year 1998, Centralized Disbursing, Defense Finance and Accounting Service Indianapolis Center," January 27, 1999

Naval Audit Service

Report No. N2001-0012, "Fiscal Year 2000 Department of the Navy General Fund Principal Statements," February 7, 2001

Report No. N2000-0018, "Department of the Navy Principal Statements for Fiscal Year 1999," February 10, 2000

Report No. 054-99, "Department of the Navy Principal Statements for Fiscal Year 1998: Fund Balance With Treasury," August 19, 1999

Air Force Audit Agency

Report No. 99053001, "Accounting for Selected Assets and Liabilities - Fund Balance With Treasury, Fiscal Year 1999," August 28, 2000

Report No. 99053002, "Opinion on Fiscal Year 1999 Air Force Consolidated Financial Statements," February 9, 2000

Report No. 98053001, "Accounting for Selected Assets and Liabilities - Fund Balance With Treasury, Fiscal Year 1998," January 6, 2000

Report No. 98053002, "Opinion on Fiscal Year 1998 Air Force Consolidated Financial Statements," March 1, 1999

Appendix C. Statement of Transactions and the Fund Balance With Treasury Account

The Statements of Transactions are combined at the finance centers and submitted to the Department of the Treasury. The Department of the Treasury records the data from the Statements of Transactions in the FBWT account maintained for each appropriation in the U.S. Treasury's accounting and reporting system. Each month, the Department of the Treasury reports the outstanding balance in the FBWT account to each Government agency on Department of the Treasury Financial Management Service Form 6653, "Undisbursed Appropriation Account Ledger."

The Department of the Treasury sends the Undisbursed Appropriation Account Ledger to each agency on microfiche and electronically through the Government On-line Accounting Link System. DFAS uses the Undisbursed Appropriation Account Ledger to adjust budgetary data to be reported monthly on SF 133, "Report on Budget Execution," and the Department of the Treasury Financial Management Service Form 2108, "Yearend Closing Statement."

Appendix D. U.S. Treasury and DoD Guidance for the Fund Balance With Treasury Account

U.S. Treasury Guidance. Volume I, part 2, chapter 5100, "Reconciling Fund Balance With Treasury Accounts," October 18, 1999, of the Treasury Financial Manual, requires agencies to investigate all differences in checks issued, and to reconcile those differences monthly. The Treasury Financial Manual states that agencies should maintain transaction logs to support the checks issued amount reported on the Statement of Accountability. The log should also contain a list of all U.S. Treasury checks issued and reported on the Weekly Transmission Reports, and all adjustments initiated by the Department of the Treasury or the agency. Agencies should analyze the transaction log, prepare a list of unmatched items (checks issued that were not reported on either the Statement of Accountability or the Weekly Transmission Report) and determine the reason for the differences.

Volume I, part 2, chapter 3100, "Instructions for Disbursing Officers' Reports," February 6, 1997, of the Treasury Financial Manual, requires closing disbursing stations to have reported all checks issued to the Department of the Treasury and to have zero checks issued differences. The Department of the Treasury does not consider a disbursing station as closed until the settlement office completely resolves all differences shown on the Comparison Report.

DoD Guidance. In response to Inspector General, DoD, recommendations,¹ the Under Secretary of Defense (Comptroller) revised DoD Regulation 7000.14-R, "DoD Financial Management Regulation," to add checklists for disbursing officers and the DFAS centers to follow regarding checks issued reporting and reconciliation. Volume 5, chapter 7, "U.S. Treasury Checks," May 11, 2000, includes checklists that discuss the Comparison Report. The checklists require:

- disbursing officers to ensure that all checks issued data for the month were entered into the DCRM and ensure that the checks issued data submitted to the DCRM agree with the checks issued data reported on the Statement of Accountability, and
- DFAS centers to ensure that disbursing officers correct checks issued differences reported on the Comparison Report within the month of notification.

¹ Inspector General, DoD, Report No. D-2000-044, "Reconciliation of Differences Reported for Checks Issued by the Defense Finance and Accounting Service Columbus Center Disbursing Stations," November 30, 1999.

Volume 5, chapter 2, "Disbursing Offices, Officers, and Agents," May 7, 2001, requires the supporting DFAS center to designate another disbursing station to handle any uncleared transactions for the deactivating station after deactivation has occurred. The designated disbursing station is called the settlement office. The disbursing officer of the deactivated disbursing station must send the retained records to the settlement office, as required by chapter 22, "Settlement of Disbursing Officer Accounts," August 18, 1999. Disbursing officers preparing a disbursing station for deactivation are responsible for ensuring that no discrepancies exist in their accountability.

Appendix E. National Archives and Records Administration and DoD Guidance on Record Retention

National Archives and Records Administration Guidance. The National Archives and Records Administration (the Archives) is responsible for issuing procedures for the disposal of all Federal Government records. The Archives issues the General Records Schedules to provide disposal authorization for administrative records common to agencies of the Federal Government. The administrative records include records on civilian personnel, procurement, and fiscal accounting. Agency records officers may tailor the schedules to the particular needs of the agency. General Records Schedule 6, "Accountable Officers' Accounts Records," December 21, 1998, and previous editions, authorize the destruction of accountable officers' files 6 years, 3 months, after the period covered by the account.

DoD Guidance. DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," provides guidance on the retention policy for financial records by DoD. Volume 1, chapter 9, "Financial Records Retention," August 25, 2000, and previous editions, require DoD to maintain financial records, both paper and electronic, documenting the acquisition of DoD property, including cash, and other financial transactions. Chapter 9 requires DoD to maintain the financial records for at least the minimum period specified in the applicable Archives General Records Schedule. DoD must maintain the records for a longer period when directed by supplemental guidance or there are compelling reasons to do so.

Volume 5, chapter 20, "Assembly and Transmittal of Financial Reports," May 25, 2000, and previous editions, require the DFAS centers to make an administrative examination of financial reports, and, when the examination is complete, retain the documents. Chapter 20 requires the centers to maintain financial reports, including the Statement of Accountability, for a period of 6 years, 3 months, as required by the Archives. The centers must use the records, as needed, for audit and reconciliation purposes, and destroy the records after the retention period.

Volume 5, chapter 21, "Disbursing Office Records," June 22, 2000, requires the retention of original disbursing officer records and associated papers, and that the records be readily accessible by the disbursing officer or the designated settlement office, for 6 years, 3 months. Original disbursing officer records include checks issued records and reports, and any other document, record, log or electronic file that supports disbursing transactions or affects the accountability of the disbursing officer. When a disbursing station is deactivated, all disbursing station records must be provided to the office designated to settle the accounts.

Previous editions of volume 5, chapter 21 (the May 1996 and November 1999 editions), required the disbursing officer or the designated settlement office to retain disbursing officer records for 1 year and then destroy the records.

DFAS Manual 5015.2-M, "Records Disposition Schedule," January 2000, includes disposition schedules for many types of DFAS records, including financial records, payroll records, and disbursing records. Schedule 7300, "Original Disbursing Accounts," authorizes the destruction of original Statements of Accountability and supporting records 6 years, 3 months after the cutoff at the end of the month.

Appendix F. Records Needed to Reconcile Checks Issued Differences

Disbursing stations and settlement offices need three types of data to fully reconcile checks issued differences reported on the Comparison Report. Data are needed on each:

- checks issued amount supporting the total checks issued amount reported on the Statement of Accountability,
- checks issued amount reported on the Weekly Transmission Reports, and
- adjustments made by the agency to its Statement of Accountability or made by the Department of the Treasury to the Weekly Transmission Report amounts shown on the Comparison Report.

The data are needed to identify checks issued and adjustments that were shown on the Statement of Accountability and not shown on the Weekly Transmission Report, and checks issued and adjustments shown on the Weekly Transmission Report and not shown on the Statement of Accountability. Agencies cannot fully reconcile checks issued differences reported on the Comparison Report, regardless of the age of the differences, without all three data elements.

Appendix G. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service

Non-Defense Federal Organizations

Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
Technical Information Center

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

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Defense Finance and Accounting Service Comments



DFAS-DAS

DEFENSE FINANCE AND ACCOUNTING SERVICE

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NOV - 7 2001

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: Audit Report on Checks Issued Differences for Deactivated Disbursing Stations
(Project No. D2001FD-0048)

Our response to the subject draft audit report is attached. The point of contact is
Ms. Mary Golden at (703) 607-5051 or DSN 327-5051.


Robert P. McNamara
Director for Accounting

Attachment:
As stated

**DFAS Comments to Draft Audit Report on Checks Issued Differences For Deactivated
Disbursing Stations (Project No. D2001FD-0048)**

Responses to Recommendations.

Recommendation 1.a. We recommend that the Director, Defense Finance and Accounting Service issue guidance to require disbursing stations and settlement offices to retain records on checks issued until checks issued differences shown on the Comparison Report are reconciled.

Management Comments. Concur. The DoD Financial Management Regulation (FMR), Volume 5, Chapter 21, paragraph 210101, is being revised to permit the 6-year, 3-month, record retention period to be extended as required on a case-by-case basis. This extension would be applicable when determined by the disbursing officer or designated settlement official that additional time is needed to complete reconciliation of payment or collection discrepancies. This change was posted on September 14, 2001, to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) electronic coordination site for DoD review and comment. Upon completion of the coordination, the change will be incorporated into the DoD FMR.

Estimated Completion Date. The OUSD(C) is responsible for publishing revisions to the DoD FMR, and the completion date is dependent on the incorporation of the revised policy into the DoD FMR.

Recommendation 1.b. We recommend that the Director, Defense Finance and Accounting Service establish a standard method for disbursing stations and settlement offices to clear checks issued differences from the Comparison Report when data needed to complete the checks issued reconciliation are not available.

Management Comments. Concur. The Defense Finance and Accounting Service (DFAS) will establish a standard method for disbursing stations and settlement offices to clear checks issued differences from the Comparison Report when data needed to complete the checks issued reconciliation are not available. For unresolved checks issued differences that are 6 years or older, the OUSD(C) will submit a legislative proposal to allow for a one-time write-off authority as well as the authority to net differences from prior year appropriations. For all checks issued differences that have not been reconciled after 6 months from the date of initial transaction, the disbursing office or settlement office will be required to report the unreconciled differences as losses or overages of funds and to request relief of liability as prescribed in the DoD FMR, Volume 5, Chapter 6. The General Accounting Office Principles of Appropriations Law support this change. This requirement will be drafted and submitted for incorporation into the DoD FMR, Volume 5, Chapter 9, Check Issue Reporting.

Estimated Completion Date. We intend to draft the proposed requirement and submit to OUSD(C) by December 31, 2001.

Recommendation 1.c. We recommend that the Director, Defense Finance and Accounting Service require disbursing stations and settlement offices to clear check issued differences from the Comparison Report at locations where the data needed to complete the checks issued reconciliation are not available.

Management Comments. Concur in principle. DFAS will only be able to require its disbursing stations and settlement offices to clear checks issued differences that are 6 years or older where documentation is unavailable if the legislation addressed in 1.b. is enacted. However, DFAS will require disbursing stations and settlement offices to clear checks issued differences that have not been reconciled that are under 6 years old but over 6 months old where data needed to clear the differences are unavailable as prescribed in 1.b.

Estimated Completion Date. December 31, 2001.

Recommendation 2. We recommend that the Director, Defense Finance and Accounting Service review the reconciliation of checks issued differences by DoD settlement offices after disbursing station deactivation as part of its self-evaluations.

Management Comments. Concur. In March 2001, DFAS established a Performance Measurement Indicator (PMI) in its automated PMI system for the reconciliation of checks issued differences for DoD disbursing stations (active and in settlement). Each month, the PMI measures and tracks the overall progress of the DFAS and the Military Services in clearing and reducing their disbursing stations' unreconciled differences. Detailed information by disbursing station symbol is captured and used by DFAS and the Military Services to identify and focus attention on clearing transactions for those disbursing stations with significant differences (90 days or older). Effective November 2001, the PMI was revised to measure and track the overall progress of the disbursing stations in clearing and reducing their unreconciled differences to 60 days. Deactivating offices with unreconciled checks issued differences over 60 days old from the date of initial transaction would be required to report the unreconciled differences as losses or overages of funds and to request relief of liability as prescribed in the DoD FMR, Volume 5, Chapter 6.

Estimated Completion Date. September 30, 2002.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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